

UMSOBOMVU MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

Annual Financial Statements

for

Umsobomvu Local Municipality

for the year ended 30 June: ***2011***

Province: Northern Cape

Contact Information:

Name of Municipal Manager:	AC Mpela
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Umsobomvu Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

General Information

Members of the Council	Date Appointed/Term Ended	Designation
NL Hermans	22 May 2011(Appointed)	Mayor
NL Hermans	22 May 2011(Appointed)	Speaker
NB Mdala	22 May 2011(Appointed)	Member
N Reyners	22 May 2011(Appointed)	Member
SG Mlenzana	22 May 2011(Appointed)	Member
CF Gronum	22 May 2011(Appointed)	Member
S Ngalimani	22 May 2011(Appointed)	Member
E Humphries	22 May 2011(Appointed)	Member
A Frits	22 May 2011(Appointed)	Member
S Siko	22 May 2011(Appointed)	Member
MA Sestile	22 May 2011(Appointed)	Member
RK Pennels	22 May 2011(Term Ended)	Member
DB Jokka	22 May 2011(Term Ended)	Member
LA Afrika	22 May 2011(Term Ended)	Member
JM Reed	22 May 2011(Term Ended)	Member
G Ngxazana	22 May 2011(Term Ended)	Member
BS Nene	22 May 2011(Term Ended)	Member
M van Niekerk	22 May 2011(Term Ended)	Member
NJ Batties	22 May 2011(Term Ended)	Member

Municipal Manager

AC Mpela

Chief Financial Officer

DT Visagie

Grading of Local Authority

Low Capacity

Auditors

Auditor-General

Bankers

ABSA

General information (continued)

Registered Office:	Colesberg
Physical address:	21A Church Street Colesberg 9795
Postal address:	Private Bag X6 Colesberg 9795
Telephone number:	(051) 7530 777
Fax number:	(051) 7530 574
E-mail address:	mpela@umsobomvu.co.za

Umsobomvu Local Municipality

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 81, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.
I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Municipal Manager: **AC Mpela**

31 August 2011

Umsobomvu Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/11 financial period is set out in Directive 4 and Directive 5 Issued by the Accounting Standards Board (ASB) on 11 March 2010.

Despite having instituted various control measures in order to improve the overall financial results of the municipality, the collection of arrear debt remains a challenge. The increase in the debtors book together with the increased number of indigent customers is indicative of the poverty that exists within the municipal area. However, the ongoing reviewing and monitoring of debt collection performance is expected to result in an improvement in the collection of arrears.

2. KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review. No figures are provided for the previous year because of the change in format of the Annual Financial Statements presented.

Financial Statement Ratios:

INDICATOR	2011	2010
Surplus / (Deficit) before Appropriations	(28,811,304)	(68,548,623)
Surplus / (Deficit) at the end of the Year	294,681,251	323,918,866
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	24.56%	14.72%
Remuneration of Councillors	2.29%	1.49%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	35.80%	23.85%
Impairment Losses	2.50%	30.25%
Repairs and Maintenance	2.11%	0.91%
Interest Paid	0.14%	0.23%
Bulk Purchases	11.39%	5.93%
Contracted Services	0.70%	0.33%
Grants and Subsidies Paid	2.39%	12.40%
General Expenses	18.13%	9.89%
Current Ratio:		
Creditors Days	22	21
Debtors Days	201	164

3. OPERATING RESULTS

The overall operating results for the year ended 30 June 2011 are as follows:

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	21,576,090	82,667,113	(73.90)%	-	-
Operating income for the year	67,872,972	73,285,541	(7.39)%	89,130,590	(23.85)%
Appropriations for the year	(318,310)	12,283,258	(102.59)%	-	-
	89,130,752	168,235,913	(47.02)%	89,130,590	0.00%
Expenditure:					
Operating expenditure for the year	96,684,276	141,834,164	(31.83)%	66,200,815	46.05%
Closing surplus / (deficit)	287,199,092	21,576,090	1231.10%	22,929,775	-
	89,130,752	163,410,254	(45.46)%	89,130,590	0.00%
		4,825,658			

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	36,251,557	26,324,362	37.71%	32,763,315	10.65%
Expenditure	35,883,946	30,702,150	16.88%	36,707,227	(2.24)%
Surplus / (Deficit)	367,611	(4,377,788)	(108.40)%	(3,943,912)	-
Surplus / (Deficit) as % of total income	1.01%	(16.63)%		(12.04)%	

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	-	-	-	-	-
Expenditure	384,164	314,281	22.24%	374,918	2.47%
Surplus / (Deficit)	(384,164)	(314,281)	22.24%	(374,918)	-
Surplus / (Deficit) as % of total income	-	-		-	

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	9,184,994	8,781,592	4.59%	9,199,845	(0.16)%
Expenditure	5,340,359	9,408,479	(43.24)%	7,654,167	(30.23)%
Surplus / (Deficit)	3,844,635	(626,887)	(713.29)%	1,545,678	-
Surplus / (Deficit) as % of total income	41.86%	(7.14)%		16.80%	

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R8 947 033 (2009/2010: R8 270 349). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	14,287,853	12,997,183	9.93%	15,857,347	(9.90)%
Expenditure	15,134,236	41,449,964	(63.49)%	13,421,064	12.76%
Surplus / (Deficit)	(846,383)	(28,452,781)	(97.03)%	2,436,283	-
Surplus / (Deficit) as % of total income	(5.92)%	(218.91)%		15.36%	

3.5 Water Services:

Water is bought in bulk from The Department of Water of Affairs and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R200 488 (2009/2010: R133 650). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	8,154,875	7,344,062	11.04%	8,380,818	(2.70)%
Expenditure	6,734,432	8,600,934	(21.70)%	8,041,668	(16.26)%
Surplus / (Deficit)	1,420,443	(1,256,872)	(213.01)%	339,150	-
Surplus / (Deficit) as % of total income	17.42%	(17.11)%		4.05%	
	(33,213,446)	(33,519,961)		22,927,494	

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R344 002 (2009/2010: R1 367 590). Full details of Property, Plant and Equipment are disclosed in Note 8 and appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of RXX was financed as follows:

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Capital Replacement Reserve	-	-	-	-	-
External Loans	-	-	-	-	-
Grants and Subsidies	775,566	6,409,801	(87.90)%	22,929,900	(96.62)%
Public Contributions	-	-	-	-	-
Own Funds (Accumulated Surplus)	-	-	-	-	-
	775,566	6,409,801	(87.90)%	22,929,900	(96.62)%
				22,929,900	

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2011	2010
Capital Replacement Reserve	-	-
External Loans	-	-
Grants and Subsidies	100.00%	100.00%
Public Contributions	-	-
Own Funds (Accumulated Surplus)	-	-

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

5. RECONCILIATION OF BUDGET TO ACTUAL

5 Operating Budget:

DETAILS	2011	2010
Variance per Category:		
Budgeted surplus before appropriations	22,929,775	-
Revenue variances	(21,257,618)	16,414,403
Expenditure variances:		
Employee Related Costs	671,775	648,964
Remuneration of Councillors	239,363	5,315,225
Depreciation and Amortisation	(34,612,711)	718,269
Impairment Losses	2,681,939	(42,907,158)
Repairs and Maintenance	(2,036,121)	457,051
Interest Paid	1,440,430	146,417
Bulk Purchases	(391,793)	(129,855)
Contracted Services	0	(74,891)
Grants and Subsidies Paid	(2,313,997)	(6,980,887)
General Expenses	3,837,654	(8,636,195)
Loss on disposal of Property, Plant and Equipment	-	-
Actual surplus before appropriations	(28,811,304)	(35,028,662)

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2011 amounted to R11 368 675 (30 June 2010: R62 678 931) and is made up as follows:

Capital Replacement Reserve	7,237,772
Capitalisation Reserve	237,103
Donations and Public Contributions Reserve	-
Accumulated Surplus	(28,811,304)
	-21,336,429

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Capitalisation and Donations and Public Contributions Reserves are utilised to offset the cost of depreciation of assets funded from Internal Advances (not applicable anymore) and Contributions from Public over the lifespan of such assets. Amounts equal to the cost of assets acquired from Public Contributions are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 2 and the Statement of Change in Net Assets for more detail.

8. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2011 was R1 193 443 (30 June 2010: R1 250 955).

Refer to Note 17 and Appendix "A" for more detail.

9. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2011 was R6 780 550 (30 June 2010: R5 912 204).

This liability is in respect of continued Healh Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 18 for more detail.

10. NON-CURRENT PROVISIONS

Non-current Provisions amounted R7 674 606 as at 30 June 2011 (30 June 2010: R7 172 265) and is made up as follows:

Provision for Cleaning of Illegal Dumping	-
Provision for Clearing of Alien Vegetation	-
Provision for Long-term Service	-
Provision for Rehabilitation of Land-fill Sites	7,674,606
	7,674,606

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 19 for more detail.

11. CURRENT LIABILITIES

Current Liabilities amounted R24 312 983 as at 30 June 2011 (30 June 2010: R24 513 585) and is made up as follows:

Consumer Deposits	Note 13	556,479
Creditors	Note 14	5,935,809
VAT Provision	Note 16	8,148,951
Unspent Conditional Grants and Receipts	Note 15	7,848,066
Bank Overdraft	Note 6	693,583
Current Portion of Long-term Liabilities	Note 17	1,115,672
		24,312,886

Non-current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

12. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R29 020 982 as at 30 June 2011 (30 June 2010: R30 147 263).

An audit of all assets was done during the year during the process of compiling the asset register.

Refer to Note 8 and Appendices "B, C and E (2)" for more detail.

13. INTANGIBLE ASSETS

The net value of Intangible Assets were R5 100 as at 30 June 2011 (30 June 2010: R7 261).

These are assets which cannot physically be identified and verified and are in respect of computer software and water rights / servitudes obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 9 for more detail.

15. LONG-TERM RECEIVABLES

Long-term Receivables of R9 516 at 30 June 2011 (30 June 2010: R9 235) is made up as follows:

Other loans	3,516
Township Development	-
Sale of Erven	-
Capitalised Arrear Services	-
	3,516
Less: Short-term portion included in Current Assets	3,516
	-

The substantial decrease in Long-term Receivables is attributed to the write-off of long outstanding amounts to the Provision for Doubtful Debts.

Refer to Note 11 for more detail.

16. CURRENT ASSETS

Current Assets amounted R23 941 510 as at 30 June 2011 (30 June 2010: R18 193 104) and is made up as follows:

Inventory	Note 3	37,899
Consumer Debtors	Note 4	18,685,393
VAT Receivable	Note 16	-
Call Investment Deposits	Note 6	1,646,882
Bank Balances and Cash	Note 6	2,426,678
Current Portion of Long-term Debtors	Note 11	3,516
		22,800,367

Refer to the indicated Notes for more detail.

17. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 25 and 33, and Appendix "F" for more detail.

18. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 48.

19. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format and is now presented as such on continuous basis.

20. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

31 August 2011

MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 June 2011

	Note	Actual 2011 R	Actual 2010 R	*Budget 2011 R*
ASSETS				
Current Assets		**22,800,367**	**18,199,104**	***30,890,468***
Inventory	**3**	37,899	44,059	*44,059*
Trade Receivables from Exchange Transactions	**4**	18,685,393	14,821,237	*28,000,000*
Trade Receivables from Non-Exchange Transactions	**5**	1,646,882	222,343	*500,000*
VAT Receivable	**16**	-	768,291	
Cash and Cash Equivalents	**6**	2,426,678	2,337,174	*2,337,174*
Current Portion of Long-term Receivables from Exchange transactions	**11**	3,516	6,000	*9,235*
Non-Current Assets		**310,731,988**	**344,568,770**	***85,347,905***
Property, Plant and Equipment	**8**	310,488,729	344,312,835	*85,000,000*
Intangible Assets	**9**	5,100	7,261	
Investment Property	**10**	238,159	245,439	*347,905*
Long-term Receivables from exchange transactions	**11**	-	3,235	
Total Assets		**333,532,355**	**362,767,874**	***116,238,373***
LIABILITIES				
Current Liabilities		**24,312,886**	**24,513,585**	***26,077,594***
Consumer Deposits	**13**	556,479	544,546	*544,546*
Creditors	**13**	5,935,809	8,006,427	*14,000,000*
Unspent Conditional Grants and Receipts	**15**	7,848,066	3,971,182	
VAT Payable	**16**	14,326	-	
VAT Provision	**15**	8,148,951	10,533,048	*10,533,048*
Bank Overdraft	**6**	693,583	400,124	
Current Portion of Long-term Liabilities	**17**	1,115,672	1,058,258	*1,000,000*
Non-Current Liabilities		**14,538,219**	**14,335,424**	***7,840,000***
Long-term Liabilities	**17**	83,063	1,250,955	*540,000*
Retirement Benefit Liabilities	**18**	6,780,550	5,912,204	
Non-current Provisions	**18**	7,674,606	7,172,265	*7,300,000*
Total Liabilities		**38,851,104**	**38,849,009**	***33,917,594***
Total Assets and Liabilities		**294,681,251**	**323,918,865**	***82,320,779***
NET ASSETS		**294,681,251**	**323,918,866**	***82,320,779***
Accumulated Surplus / (Deficit)	**20**	294,681,251	323,918,866	*82,320,779*
Total Net Assets		**294,681,251**	**323,918,866**	***82,320,779***

MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 June 2011

	Note	Actual 2011 R	Actual 2010 R	*Budget 2011 R*
REVENUE				
Revenue from Non-exchange Transactions				
Property Rates	**21**	3,569,415	3,585,443	*3,631,260*
Property Rates - Penalties imposed and collection charges	**22**	558,582	143,315	*654,504*
Fines		1,769,468	1,573,231	*2,008,281*
Licences and Permits		209,060	361,830	*268,450*
Government Grants and Subsidies Received	**25**	26,426,579	36,535,782	*49,356,478*
Revenue from Exchange Transactions				
Service Charges	**23**	30,294,090	29,478,547	*31,644,855*
Rental of Facilities and Equipment	**23**	335,595	298,064	*37,962*
Interest Earned - External Investments	**22**	42,369	102,310	*34,000*
Interest Earned - Outstanding Debtors	**22**	1,258,321	1,110,168	*1,494,800*
Other Income	**26**	3,409,494	96,850	-
Total Revenue		**67,872,972**	**73,285,541**	***89,130,590***
Employee Related Costs	**27**	23,741,462	20,876,445	*24,413,237*
Remuneration of Councillors	**28**	2,217,677	2,118,550	*2,457,040*
Depreciation and Amortisation	**29**	34,612,711	33,831,823	-
Impairment Losses	**30**	2,418,233	42,907,158	*5,100,172*
Repairs and Maintenance		2,036,121	1,285,832	-
Finance Costs	**31**	131,898	319,483	*1,572,328*
Bulk Purchases	**32**	11,011,013	8,404,000	*10,619,220*
Contracted Services		673,000	474,891	*673,000*
Grants and Subsidies Paid	**33**	2,313,997	17,588,058	-
General Expenses	**34**	17,528,164	14,027,924	*21,365,818*
Total Expenditure		**96,684,276**	**141,834,164**	***66,200,815***
SURPLUS / (DEFICIT) FOR THE YEAR		**(28,811,304)**	**(68,548,623)**	***22,929,775***

Refer to Appendix E for explanation of budget variances

Umsobomvu Local Municipality
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 June 2011

Description	Accumulated Surplus / (Deficit) Account			Total for Accumulated Surplus/(Deficit) Account	Total
	Capital Replacement Reserve	Capitalisation Reserve	Accumulated Surplus / (Deficit)		
	R	R	R	R	R
2010					
Balance at 30 June 2009	7,414,172	237,103	82,667,113	90,318,389	90,318,389
Change in Accounting Policy (Note 35)			-	-	-
Correction of Error (Note 36)			-	-	-
Restated Balance	**7,414,172**	**237,103**	**82,667,113**	**90,318,389**	**90,318,389**
Surplus / (Deficit) for the year			(68,548,623)	(68,548,623)	(68,548,623)
Prior year VAT appropriation			(4,825,658)	(4,825,658)	(4,825,658)
Pior year adjustment			12,283,258	12,283,258	12,283,258
Property, Plant and Equipment purchased	(68,400)	-		(68,400)	(68,400)
Balance at 30 June 2010	**7,345,773**	**237,103**	**21,576,090**	**29,158,967**	**29,158,967**
	-	-			
2011					
Correction of Error (Note 35)			294,752,615	294,752,615	294,752,615
Restated Balance	**7,345,773**	**237,103**	**316,328,705**	**323,911,582**	**323,911,582**
Surplus / (Deficit) for the year			(28,811,304)	(28,811,304)	(28,811,304)
Property, Plant and Equipment purchased	(108,001)			(108,001)	(108,001)
Prior year adjustments		-	(318,310)	(318,310)	(318,310)
Balance at 30 June 2011	**7,237,772**	**237,103**	**287,199,092**	**294,673,967**	**294,673,967**
	-	-	(0.00)	(0.00)	

Details on the movement of the Funds and Reserves are set out in Note 20.

Umsobomvu Local Municipality
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 June 2011

	Note	2011 R	2010 R	2010 Budget R
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from Ratepayers, Government and Other		66,461,161	102,356,502	87,705,000
Cash paid to Suppliers and Employees		(65,538,001)	(78,730,304)	(63,215,000)
Cash generated from / (utilised in) Operations	**36**	**923,159**	**23,626,199**	**24,490,000**
Dividends received		-	-	-
Royalties received				-
Interest received	**22**	1,300,689	102,310	-
Interest paid	**31**	(131,898)	(319,483)	(1,560,203)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**2,091,951**	**23,409,026**	**22,929,797**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant and Equipment	**8**	(1,194,831)	(6,624,201)	-
Purchase of Intangible Assets	**9**	(3,598)	-	-
Purchase of Investment Property	**10**	-	-	-
Proceeds on Disposal of Property, Plant and Equipment		-	-	-
Proceeds on Disposal of Intangible Assets		-		-
Proceeds on Disposal of Investment Property		-	-	-
(Increase) / decrease in Long-term Receivables	**11**	5,720	6,000	-
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**(1,192,709)**	**(6,618,201)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES				
New Loans raised	**17**	-	(11,883,903)	-
Loans repaid	**17**	(1,110,478)	(1,050,283)	-
Decrease / (Increase) in Short-term Loans	**17**	-	-	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**(1,110,478)**	**(12,934,185)**	**-**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**6**	**(203,955)**	**3,856,639**	**22,929,797**
Cash and Cash Equivalents at the beginning of the year		1,937,050	(1,919,589)	-
Cash and Cash Equivalents at the end of the year		1,733,095	1,937,050	22,929,797

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2010 and 30 June 2011 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

The details of any changes in accounting policies and comparative restatements are explained in the relavant policy.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2. 1 Revenue Recognition

Accounting Policy 11.2 on *Revenue from Exchange Transactions* and Accounting Policy 11.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1. 2. 2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement* .

1. 2. 3 Provisions and contigent liabilities

Management judgement is required when recognition and measuring provisions and when measuring contigent liabilities as set out notes 39 respectively are discounted where the effect of discounting is material.

1. 3 Sources of estimation uncertainty

The following are the key assumptions concerning the future,and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount 0f assets and liabilities within the next finaancial year.

1. 3. 1 Impairment of Financial Assets

Accounting Policy 6 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement* , and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1. 3. 2 ***Impairment: Write down of Property, Plant and Equipment and Inventories***

Accounting Policy 3.9 on *PPE - Impairment of assets* and Accounting Policy 4.2 on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17: *Property, Plant and Equipment* , GRAP 12: *Inventory* and GRAP 102: *Intangible assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management.*

1. 3. 3 Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed across all classes of debtors.

1. 3. 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1. 3. 5 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

1. 3. 6 Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes, 20 and 37 respectively. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1. 4 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 5 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

1. 6 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - October 2009

The Minister of Finance annouced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 uidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in he standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the
Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:
Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2. 1 Other Reserves

The Entity creates and maintains reserves in terms of specific requirements.

2. 1 .1 Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:
• The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
• The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
• Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
• If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

2. 1 .2 Capitalisation Reserve

On the implementation of GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.
The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.
When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

3. PROPERTY, PLANT AND EQUIPMENT

3. 1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plan and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3. 2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are stated at the depreciated replacement cost.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Previously, land and buildings were carried at cost less accumulated depreciation and impairment losses. These changes are recorded as a change in accounting policy in the Statement of Financial Performance.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3. 3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	Years		**Years**
Infrastructure		*Buildings*	*30*
Roads and Paving	15 - 20		
Electricity	20 - 30	***Other***	
Water	15 - 20	Specialist Vehicles	10
Sewerage	15 - 20	Other Vehicles	5-7
Landfill Sites	30	Office Equipment	3 - 7
Houses	30	Furniture and Fittings	7 - 10
Community		Watercraft	15
Recreational Facilities	20	Bins and Containers	5
Security	5	Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 5
		Improvements	30

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3. 4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3. 5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3. 6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

3. 7 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3. 8 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3. 9 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

3. 10 Landfill sites

The municipality has an obligation to rehabilitate its landfill sites in terms of its licences stipulations.Provision is made for this obligation in accordance with the municipality's accounting policy on non-current provision-see Accounting Policy 12 on Provisions.Rehabitation costs capitalised to the cost of the landfillsite,are written off stright-line basis over the estimated useful lives of the site.

4. INTANGIBLE ASSETS

4. 1 Initial Recognition

Identifiable non–monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

4. 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

After initial recognition, intangible assets are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. If the intangible asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to the revaluation surplus.However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same intangible asset previously recognised in surplus or deficit.Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

4. 3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4. 4 Transitional provisions

The fair values of intangible assets recognised in terms of GRAP 102 have been disclosed for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

5. INVESTMENT PROPERTY

5. 1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and

5. 2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5. .2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

5. 3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

5. 4 Transitional Provisions

In terms of ASB Derective 4,the municipality is not required to measure investment properties for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 16.The municipality elects to apply ASB Directive 4 for its investment properties and does not measure its investment properties for the above mentionedperiod.However,provisional amounts for investment properties are disclosed in the financial statements in accordence with ASB Directive. The municipality did not perform impairment testing on its cash generating assets and non cash generating assets in the previous financial year.The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirement for the year ending 30 June 2012.(and retrospectively where practicable),and any changes therein will be implemented in accordance with requirement of GRAP 17,GRAP 3 and ASB Directive 4.

6. IMPAIRMENT OF ASSETS

6. 1. Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

▪ To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

3. 2. Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

7. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

7. 1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:
- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:
- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes there to:

Type of Financial Asset	**Classification in terms of IAS 39.09**
Short-term Investment Deposits – Call	Loans and receivables
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

7. 1 Financial Assets - Classification (continued)

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 9)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are three main categories of *Financial Liabilities* , the classification determining how they are measured. Financial liabilities may be measured at:
(i) Fair value through profit or loss; or
(ii) Other financial liabilities (Financial liabilities measured at amortised cost)
(iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

3 Initial and Subsequent Measurement

3. 1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

3. 2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.
The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

7. 4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

Financial assets carried at amortised cost

Accounts receivables encompassess long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

7. 5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

7. 6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

7 7 RISK MANAGEMENT OF FINANCIAL ASSET AND LIABILITIES

It's a the policy of the municipality to disclose information that enable the user of its financial statements to evaluate the nature and extent of risks arising from financial statements to which the municipality is exposed on the reporting.

The municipality has exposure to the following from its use of financial instruments:

-Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails tomeet its contrual obligations,and arises principally from the Group's receivables from customer and investment securities.

-Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associate with its financial liabilities that are settled by delivery of cash or another financial asset.The Group approach to managing liquility is to ensure,as possible, that it always have sufficient liquidity to meet its when due,under both normal and streessed conditions,withot incurring unacceptable losses or risking damage to the Group's reputation.

-Market risk
Market risk is a risk that changes in market prices,such as foreign exchanges rates,interest rates and equity prices will affect the Group income or the value of its holding of financial instruments.The objective of market risk management is to manage and risk and exposure are disclosure as follows:

- Control market risk exposures within acceptable parameters,while optimising the return.
- The maximum exposure to cash flow and fair value risk,price and fpreign cureency risk.
- Sensitive analysis for each of the market risks

-Credit risk
- Each class of financial instrument is disclose separately
- Maximum exposure to credit risk not covered by collateral is specified
- Financial instruments covered by collateral are specified.

-Liquidity risk
- A maturity analysis for financial assets and liabilities that shows the ramaining contractual maturities.
- Liquidity risk is manage by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements.Liabilities are manage by ensuring that all contractual payments are met on a timeous basis and,if required,additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

8 INVESTMENT IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Municipality and the other parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are stated at cost.

9. INVENTORIES

9. 1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development.Costs also include a proportion of overhead costs.

9. 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Unsold propeties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Transitional provisions

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2011 in accordance with the requirements of GRAP 12, GRAP 3 and ASB Directive 4.

10. NON-CURRENT ASSETS HELD-FOR-SALE

10. 1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

10. 2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

Interest and other expenses attrrbutable to the liabilities of a disposal group classified as held for sale are reconised in surplus or deficit.

11. REVENUE RECOGNITION

11. 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

11. 2 Revenue from Exchange Transactions

11. 2. 1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.
Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

11. 2. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date.

11. 2. 3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:
▪ Interest earned on trust funds is allocated directly to the fund.
▪ Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

11. 2. 4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

11. 2. 5 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified.The income recognised is in terms of the agency agreement.

11. 2. 6 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:
- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

11. 2. 7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

11. 2. 8 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

11. 2. 9 Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement.Royalty.arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement

11. 1 Revenue from Non-exchange Transactions

11. 1. 1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

11. 1. 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

Revenue from the issuing of summons is only recognised when collected by the courts.Due to the various legal process that can apply to summonses and the inadequte information receivde from the courts,it is not possible to measure this revenue when the summons is issued.

11. 1. 3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.Assets acquired in non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

11. 1. 4 Government Grants and receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional Grants and receipts

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

11. 1. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

12. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Provision for Restructuring cost

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating
- the expenditures that will be undertaken;
- when the plan will be implemented; and;

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

13. EMPLOYEE BENEFITS

13. 1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13. 2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

13. 2 1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13. 3 Defined Benefit Plans

A **defined benefit plan** is a post- employment benefit plan other than a defined contribution plan.

13. 1. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.The other Medical Aid Funds,with which the municipality is associated,do not provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the *"corridor method".* Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

13. 1. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

13. 1. 3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

13. 1. 4 Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense
when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

13. 3. 4 Multi-employer Defined Benefit Plans and Defined Control Contribution Plans

The municipality contribution to various National and Provisional administered Plans on behalf of its qualifying employees.These funds are multi-employer funds (refer to note 46 of the Annual Financial Statements for details).The contribution to fund obligation for the payment of retirement benefits are charge against revenue in the year they become payable.These defined benefit funds are acturaially valued tri-annually on the project Unit Credit Method basis.Deficits are recovered through lump sum payments or increase future contributions on a proportion basis from all participating municipalities.

14. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

14. 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14. 2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality’s net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality’s net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

14. 3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

15. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

The municipality ceases to capitalise borrowing costs when substantially all the activities necassarry to prepare the qualifilyiing assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

17. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

18. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

22. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

23. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

24. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

25. COMPARATIVE INFORMATION

25. 1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.

25. 2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

27. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

28 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a spesific standard of GRAP.

-terms are classified as commiments where the municipality commits itself to future transactions that will normally results in the outflow of resources.

-Other commitments or contracts are be non-cancellable or only cacellable at significant codt contracts should relate to something other than the business of the municipality.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2011

1 GENERAL INFORMATION

Umsobomvu Local Municipality is a local government institution in Colesberg, Northern Cape, and and has 3 local municipalities under its jurisdiction. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction and overview of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by The Constitution.

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a low capacity municipality and must comply with GRAP by 30 June 2009. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

2 RECONCILIATION OF BUDGET SURPLUS/DEFICIT WITH THE SURPLUS/DEFICIT IN THE STATEMENT OF FINANCIAL PERFORMANCE

Net surplus/deficit per the statement of financial performance	(28,811,304)
Adjusted for:	
Impairments recognised / reversed	(2,681,939)
Councelors Remuniration - less than budgeted for	(239,363)
Depreciation written back	34,612,711
Employee related cost - less than budgeted for	(671,775)
Finance charges - less than budgeted for	(1,440,430)
Bulk purchases - less than budgeted for	391,793
Revenue - less than budgeted for	21,257,618
Other expenditure	512,464
Net surplus/deficit per approved budget	22,929,775

3 INVENTORY

	2011 R	2010 R
Water - at cost	37,899	44,059
Total Inventory	**37,899**	**44,059**

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Inventory in accordance with GRAP 12 for the financial years up to 30 June 2010 for the following inventory:

Unpurified Water;
Water in pipelines
Land held for sale

The municipality has identifying and measured all Inventory in terms of GRAP 12 for the financial year ended 30 June 2011. The balances of the inventory have been retrospectively restated accordingly.

Due to faulty meters, the calculations of water on hand are performed on technical data. Refer to disclosure note 12 for more information.

4 TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances	Provision for Impairment	Net Balances
As at 30 June 2011			
Service Debtors:	35,138,290	-	35,138,290
Electricity	3,665,763	-	3,665,763
Refuse	10,503,300	-	10,503,300
Sewerage	6,807,412	-	6,807,412
Water	14,161,815	-	14,161,815
Loan Instalments	1,908,520	-	1,908,520
Other Debtors	6,035,702	-	6,035,702
Less: Provision for doubtfull debts		(24,397,119)	(24,397,119)
Total Consumer Debtors	**43,082,512**	**(24,397,119)**	**18,685,393**

	Gross Balances	Provision for Impairment	Net Balances
As at 30 June 2010			
Service Debtors:	45,750,481	-	45,750,481
Electricity	3,332,300	-	3,332,300
Refuse	13,659,746	-	13,659,746
Sewerage	8,649,889	-	8,649,889
Water	20,108,546	-	20,108,546
Loan Instalments	2,614,443	-	2,614,443
Other Debtors	9,186,674	-	9,186,674
Less: Provision for doubtfull debts		(42,730,361)	(42,730,361)
Total Consumer Debtors	**57,551,598**	**(42,730,361)**	**14,821,237**

The municipality receives applications that it processes. Deposits are required to be paid for all water accounts opened. There are no consumers who represent more than 5% of the total balance of Consumer Debtors.

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values. The fair value of Consumer Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and Consumer Debtors as well as the current payment ratio's of the municipality's Consumer Debtors.

4.1 Ageing of Consumer Debtors	**2011 R**	**2010 R**
Electricity: Ageing		
Current:		
0 - 30 days	1,166,050	(101,623)
Past Due:		
31 - 60 Days	375,019	1,017,957
61 - 90 Days	128,800	242,500
91 - 120 Days	104,252	123,380
+ 120 Days	1,891,642	2,050,087
Total	**3,665,763**	**3,332,300**
Refuse: Ageing		
Current:		
0 - 30 days	21,111	(200,654)
Past Due:		
31 - 60 Days	155,007	223,676
61 - 90 Days	122,727	157,272
91 - 120 Days	118,351	149,515
+ 120 Days	10,086,104	13,329,939
Total	**10,503,300**	**13,659,746**

	2011	2010
Sewerage: Ageing	**R**	**R**
Current:		
0 - 30 days	280,919	(24,532)
Past Due:		
31 - 60 Days	186,565	330,196
61 - 90 Days	139,663	205,508
91 - 120 Days	117,865	167,376
+ 120 Days	6,082,400	7,971,342
Total	**6,807,412**	**8,649,889**
Water: Ageing		
Current:		
0 - 30 days	264,956	(308,015)
Past Due:		
31 - 60 Days	353,299	552,828
61 - 90 Days	226,568	401,524
91 - 120 Days	205,805	448,309
+ 120 Days	13,111,187	19,013,900
Total	**14,161,815**	**20,108,546**
Other Debtors: Ageing		
Current:		
0 - 30 days	(64,623)	(59,367)
Past Due:		
31 - 60 Days	99,222	227,690
61 - 90 Days	78,055	133,060
91 - 120 Days	71,850	142,004
+ 120 Days	7,759,718	11,357,730
Total	**7,944,222**	**11,801,117**

Total Consumer Debtors: Ageing	2011	2010
	R	**R**
Current:		
0 - 30 days	1,668,413	(694,192)
Past Due:		
31 - 60 Days	1,169,112	2,352,347
61 - 90 Days	695,813	1,139,864
91 - 120 Days	618,123	1,030,584
+ 120 Days	38,931,051	53,722,997
Total	**43,082,512**	**57,551,598**

As at 30 June 2011 Consumer Debtors of R 41 414 099 (2010: R58 245 790) were past due but not impaired. The age analysis of these Consumer Debtors are as follows:

Past Due:		
31 - 60 Days	1,169,112	2,352,347
61 - 90 Days	695,813	1,139,864
91 - 120 Days	618,123	1,030,584
+ 120 Days	38,931,051	53,722,997
Total	**41,414,099**	**58,245,790**

4.2 Summary of Debtors by Customer Classification

	Household	Industrial/ Commercial	National and Provincial Government	Totals
	R	R	R	R
As at 30 June 2011				
Current:				
0 - 30 days	987,478	680,935	-	1,668,413
Past Due:				
31 - 60 Days	778,248	390,864	-	1,169,112
61 - 90 Days	568,048	127,765	-	695,813
+ 90 Days	528,253	89,870	-	618,123
+ 120 Days	36,416,883	2,514,168	-	38,931,051
Sub-total	39,278,910	3,803,602	-	43,082,512
Less: Provision for Impairment	23,454,563	942,555	-	24,397,119
Total Debtors by Customer Classification	**15,824,346**	**2,861,047**	**-**	18,685,393
As at 30 June 2010				
Current:				
0 - 30 days	(2,186,146)	1,491,954	-	(694,192)
Past Due:			-	
31 - 60 Days	2,179,654	172,693	-	2,352,347
61 - 90 Days	1,067,065	72,799	-	1,139,864
+ 90 Days	995,871	34,713	-	1,030,584
+ 120 Days	51,334,266	2,388,731	-	53,722,997
Sub-total	53,390,708	4,160,890	-	57,551,598
Less: Provision for Impairment	42,052,260	678,101	-	42,730,361
Total Debtors by Customer Classification	**11,338,448**	**3,482,789**	**-**	14,821,237

4.3 Reconciliation of the Provision for Impairment

	2011 R	2010 R
Balance at beginning of year	42,730,361	-
Impairment Losses recognised	-	42,835,414
Amounts written off as uncollectable	(18,333,242)	(105,053)
Balance at end of year	**24,397,119**	**42,730,361**

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. Further more the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers, and is not concentrated in any particular sector or geographical area. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

Provision for impairment of Consumer Debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type.

5 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS	2011 R	2010 R
Payments made in Advance	1,894	-
Government Subsidy Claims	1,278,088	140,319
Projects	27,738	(28,754)
Short-term Loans	-	9,800
Sundry Deposits	-	(511)
Sundry Debtors	339,161	101,489
	1,646,882	222,343
Less: Provision for Impairment	-	-
Total Other Debtors	**1,646,882**	**222,343**

VAT is payable on the receipt basis. Only once payment is reveived from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

The average credit period for Government Grants and Subsidies is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies is payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Short-term Loans mainly comprise temporary advances made to local municipalities which are repayable within 12 months.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The management of the municipality is of the opinion that the carrying value of Other Debtors approximate their fair values. The fair value of Other Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratio's of Other Debtors were also taken into account for fair value determination.

6 CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	2,426,678	2,337,174
Bank Overdraft	(693,583)	(400,124)
Total Cash and Cash Equivalents	**1,733,095**	**1,937,050**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

6.1 Current Investment Deposits

Call Deposits	-	-
Notice Deposits	632,384	632,384
Short-term Portion of Investments	-	-
Total Current Investment Deposits	**632,384**	**632,384**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 9,45 % to 11,660 % per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 7,75 % to 9,75 % per annum.

6.2 Bank Accounts	2011 R	2010 R
Primary Bank Account		
Cash in Bank	1,792,714	1,703,210
Bank Overdraft	(693,583)	(400,124)
Total Bank Accounts	**1,099,131**	**1,303,086**

The Municipality has the following bank accounts:

ABSA Bank - Colesberg - Account Number: 2440000005		
Cash book balance at beginning of year	(400,124)	(2,844,310)
Cash book balance at end of year	(693,583)	(400,124)
Bank statement balance at beginning of year	286,515	(1,916,767)
Bank statement balance at end of year	197,709	286,515
ABSA Bank - Colesberg - Account Number: 4052875289		
Cash book balance at beginning of year	960,241	(331,955)
Cash book balance at end of year	1,367,896	960,241
Bank statement balance at beginning of year	1,039,196	387,544
Bank statement balance at end of year	1,766,017	1,039,196
Standard Bank - Noupoort - Account Number: 280412835		
Cash book balance at beginning of year	165,143	194,901
Cash book balance at end of year	111,730	165,143
Bank statement balance at beginning of year	155,898	194,999
Bank statement balance at end of year	108,897	155,898
ABSA Bank - Colesberg - Account Number : 4061642031		
Cash book balance at beginning of year	576,366	457,602
Cash book balance at end of year	311,968	576,366
Bank statement balance at beginning of year	576,366	457,602
Bank statement balance at end of year	311,968	576,366

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

6.3 Cash and Cash equivalents		
Cash Floats and Advances	1,580	1,580
Other Cash Equivalents	-	-
Cash on hand in Cash Floats, Advances and Equivalents	1,580	1,580

The management of the municipality is of the opinion that the carrying value of Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

7 OPERATING LEASE ASSETS / RECEIVABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at 30 June 2011 and 30 June 2010 as none of the contracts has any escalation clauses.

Umsobomvu Local Municipality
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2011

8 PROPERTY, PLANT AND EQUIPMENT

30 June 2011

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Rehabilitation Landfill Site	Other Assets	Total
	R	R	R	R	R
Carrying values at 01 July 2010	**124,134,683**	**204,213,523**	**6,860,399**	**9,104,230**	**344,312,835**
Cost	162,180,767	330,263,804	6,702,810	10,309,748	509,457,130
- *Completed Assets*	*162,180,767*	*330,263,804*	*6,702,810*	*10,309,748*	*509,457,130*
- *Under Construction*	-	-	-	-	-
Accumulated Depreciation:	(38,046,084)	(126,050,281)	157,589	(1,205,519)	(165,144,295)
- *Cost*	*(38,046,084)*	*(126,050,281)*	*157,589*	*(1,205,519)*	*(165,144,295)*
- *Revaluation*	-	-	-	-	-
Acquisitions	22,572	96,318	438,039	218,637	775,566
Depreciation:	(4,510,512)	(28,618,876)	-	(1,470,283)	(1,470,283)
Carrying values at 30 June 2011	**119,646,742**	**175,690,966**	**7,298,438**	**7,852,583**	**310,488,729**
Cost	162,203,339	330,360,122	7,140,849	10,528,385	510,232,695
- *Completed Assets*	*162,203,339*	*330,360,122*	*7,140,849*	*10,528,385*	*510,232,695*
- *Under Construction*	-	-	-	-	-
Accumulated Depreciation:	(42,556,597)	(154,669,157)	157,589	(2,675,802)	(199,743,966)
- *Cost*	*(42,556,597)*	*(154,669,157)*	*157,589*	*(2,675,802)*	*(199,743,966)*
- *Revaluation*	-	-	-	-	-

30 June 2010

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Rehabilitation Landfill Site	Other Asset	Total
	R	R	R	R	R
Carrying values at 01 July 2009	**10,938,452**	**2,683,004**	**7,172,261**	**55,590,835**	**76,384,552**
Cost	10,938,452	2,683,004	6,702,810	55,590,835	75,915,101
- *Completed Assets*	*10,938,452*	*2,683,004*	*6,702,810*	*55,590,835*	*75,915,101*
- *Under Construction*	-	-	-		-
Accumulated Depreciation:	-	-	469,451	-	469,451
- *Cost*	-	-	*469,451*	-	*469,451*
- *Revaluation*	-	-	-	-	-
Correction of error (Note 35)	117,706,116	224,775,851	-311,862	-46,836,029	295,334,076
Cost	151,242,315	322,258,217	-	(46,368,305)	*427,132,227*
Accumulated Depreciation:	(33,536,199)	(97,482,366)	(311,862)	(467,724)	*(131,798,152)*
Restated Amount	**128,644,568**	**227,458,855**	**6,860,399**	**8,754,806**	**371,718,628**
Acquisitions	-	5,322,583	-	1,087,218	6,409,801
Depreciation	(4,509,885)	(28,567,915)	-	(737,794)	(33,815,594)
Carrying values at 30 June 2010	**124,134,683**	**204,213,523**	**6,860,399**	**9,104,230**	**344,312,835**
Cost	162,180,767	330,263,804	6,702,810	10,309,748	509,457,130
- *Completed Assets*	*162,180,767*	*330,263,804*	*6,702,810*	*10,309,748*	509,457,130
- *Under Construction*	-	-	-	-	-
Accumulated Depreciation:	(38,046,084)	(126,050,281)	157,589	(1,205,519)	(165,144,295)
- *Cost*	*(38,046,084)*	*(126,050,281)*	*157,589*	*(1,205,519)*	*(165,144,295)*
- *Revaluation*	-	-	-	-	-

Property, Plant and Equipment has been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 35.2 on "Correction of Error" for details of the restatement.

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Property, plant and equipment in accordance with GRAP 17 for the financial years up to 30 June 2010.

All infrastructure assets were valued as at 30 June 2011 using the depreciated replacement cost approach.

During the period, the municipality carried out a review of the recoverable amount of its infrastructure property, plant and equipment, having regard to its ongoing programme of modernisation and the extension of its services. These assets are used in the municipality's basic services delivery reportable segments. The review led to the recognition of an impairment loss of R1,09 million, which has been recognised in the Statement of Financial Performance. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 9,00% per annum. The discount rate used when the recoverable amount of these assets was previously estimated in 2005 was 8,00% per annum.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

8.1 Impairment of Property, Plant and Equipment:

Impairment of Property, Plant and Equipment was taken into consideration by the consultants during the process of identifying Property, Plant and Equipment and included in the Depreciated Replacement Cost calculated during the exercise. The amounts for Impairment were not calculated seperately and therefore no impaired values are disclosed.

8.2 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed:

The remaining useful life of property, plant and equipment was taken into consideration by the consultants during the process of identifying property, plant and equipment and included in the Depreciated Replacement Cost calculated during the exercise. The amounts for Change in Useful Life were not calculated seperately and therefore no changes in values are disclosed.

9 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	**5,100**	**7,261**

The movement in Intangible Assets is reconciled as follows:

2011	**Computer Software**	**Servitude**	**Website Development**	**Total**
Carrying values at 01 July 2010	**7,261**	**-**		**7,261**
Cost	8,930	-	-	8,930
Accumulated Amortisation	(1,669)	-	-	(1,669)
Acquisitions during the Year:	3,598	-	-	3,598
Purchased	3,598	-	-	3,598
Internally Developed	-	-	-	-
Amortisation during the Year:	(5,759)	-	-	(5,759)
Purchased	(5,759)	-	-	(5,759)
Internally Developed	-	-	-	-
Carrying values at 30 June 2011	**5,100**	**-**	**-**	**5,100**
Cost	12,528	-	-	12,528
Accumulated Amortisation	(7,428)	-	-	(7,428)
2010				
Carrying values at 01 July 2009	**-**	**-**	**-**	**-**
Cost	-	-	-	-
Accumulated Amortisation	-	-	-	-
Correction of error	-	-	-	-
Acquisitions during the Year:	8,930	-	-	8,930
Purchased	8,930	-	-	8,930
Amortisation during the Year:	(1,669)	-	-	(1,669)
Purchased	(1,669)	-	-	(1,669)
Internally Developed	-	-	-	-
Carrying values at 30 June 2010	**7,261**	**-**	**-**	**7,261**
Cost	8,930	-	-	8,930
Accumulated Amortisation	(1,669)	-	-	(1,669)

Intangible assets have been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 35.2 on "Correction of Error" for details of the restatement.

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 28).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives. The useful lives of the intangible assets are as follows:

Computer software 3 years (2010: 3 years)

Amortisation is charged on a straight-line basis over the intangible assets' useful lives.

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Intangible Assets in accordance with GRAP 102 for the financial years up to 30 June 2010 for the following assets:

Computer Software;
Servitudes;
Website Development.

The municipality has identifying and measured all Intangible Assets in terms of GRAP 102 for the financial year ended 30 June 2011. The balances of the Intangible assets have been retrospectively restated accordingly.

10 **INVESTMENT PROPERTY**	2011 R	2010 R
At Fair Value	-	-
At Cost less Accumulated Depreciation	**245,440**	**245,440**
The movement in Investment Property is reconciled as follows:		
Carrying values at 1 July	**245,440**	**179,347**
Cost	260,000	179,347
Accumulated Depreciation	-14,560	-
Correction of error	**-**	**73,373**
Cost	-	80,653
Accumulated Depreciation	0	-7,280
Restated Amount	**245,440**	**252,720**
Acquisitions during the Year	0	0
Depreciation during the Year		-7,280
Carrying values at 30 June	**245,440**	**245,440**
Cost	260,000	260,000
Accumulated Depreciation	-14,560	-14,560
Estimated Fair Value of Investment Property at 30 June	**-**	**-**

Investment Property has been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 35.2 on "Correction of Error" for details of the restatement.

No revenue was earned from the investment property as the property is vacant land held for long-term capital appreciation.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

10.1 Impairment:Investment Property

Impairment of Property, Plant and Equipment was taken into consideration by the consultants during the process of identifying Property, Plant and Equipment and included in the Depreciated Replacement Cost calculated during the exercise. The amounts for Impairment were not calculated seperately and therefore no impaired values are disclosed.

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Investment property in accordance with GRAP 16 for the financial years up to 30 June 2011.

The municipality has identifying and measured all Investment property in terms of GRAP 16 for the financial year ended 30 June 2011. The balances of the Investment property have been retrospectively restated accordingly.

11 LONG-TERM RECEIVABLES

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2011			
Other Loans	3,516	-	3,516
	3,516	-	3,516
Less: Current Portion transferred to Current Receivables:-			3,516
Other Loans			3,516
Total Long-term Receivables			**-**

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2010			
Other Loans	9,235	-	9,235
	9,235	-	9,235
Less: Current Portion transferred to Current Receivables:-			6,000
Other Loans			6,000
Total Long-term Receivables			**3,235**

OTHER LOANS

Long term loans consist of a loan to the local Golf Club. The loan is receivable over a period 20 years that ends 2016 and interest of 4% per annum is charged.

Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets.

The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

12 WATER INVENTORY

	2010		2011	
	Quantities in kl	Value(Rand)	Quantities in kl	Value(Rand)
Colesberg	1,664	8,908	2,804	15,646
Noupoort	6,440	34,885	3,988	22,253
Norvalspont	49	265	-	-
	8,153	44,059	6,792	37,899

Due to faulty meters, the calculations are performed on technical data.

	2011	2010
13 CONSUMER DEPOSITS	**R**	**R**
Electricity and Water	556,479	544,546
Total Consumer Deposits	**556,479**	**544,546**
Guarantees held in lieu of Elecricity and Water Deposits	**-**	**-**

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

14 CREDITORS

Trade Creditors	3,203,934	2,855,419
Sundry Deposits	64,807	64,807
Other Creditors	1,361,223	3,580,068
Accrued leave	1,305,845	1,506,133
Total Creditors	**5,935,809**	**8,006,427**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Total trade payables at 30 June 2011 amounted to R3 203 934 (2010: R2 855 419)

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

15 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

15.1 Conditional Grants from Government	**7,848,066**	**3,971,182**
Other Spheres of Government	7,848,066	3,971,182
Total Conditional Grants and Receipts	**7,848,066**	**3,971,182**

See Note 24 for the reconciliation of Grants from Other Spheres of Government. The Unspent Grants are cashbacked by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

16 VAT PAYABLE

Vat Payable / (Receivable)	14,326	-768,291
Vat Provision	8,148,951	10,533,048
	8,163,277	9,764,757

The VAT provision originated because the municipality is registered for VAT on the payment basis but they're accounting system is set up on the accrual basis.

VAT is payable on the receipts basis. Only once payment is reveived from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

		2011	2010
17	**LONG TERM LIABILITIES**	**R**	**R**
	DBSA : Vehicles	946,984	1,847,921
	DBSA : Water	154,514	215,826
	Sanlam	97,237	245,466
	Sub-total	1,198,735	2,309,213
	Less: Current Portion transferred to Current Liabilities:-	1,115,672	1,058,258
	Local Registered Stock	-	-
	Annuity Loans	-	-
	DBSA : Vehicles	946,815	857,254
	DBSA : Water	71,620	52,873
	Sanlam	97,237	148,131
	Total Long-term Liabilities (Neither past due, nor impaired)	**83,063**	**1,250,955**

17.1 Summary of Arrangements

Loan DBSA - Vehicles is repaid over a period of 5 years and at interest rates of 5% (2010: 5%) per annum.

The DBSA - Water Loan is repaid over a period of 25 years and at an interest rate of 15,88% (2010: 15,88%) per annum.

The Sanlam Loan are repaid over a period of 6 years and at interest rates varying from 15,25% to 16,50% (2010: 15,25% to 16,50%) per annum.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

18 RETIREMENT BENEFIT LIABILITIES

18.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year	5,912,204	5,493,516
Contributions to Provision	-59,304	-52,800
Increase due to Discounting	541,402	487,118
Expenditure incurred	417,282	442,910
Reduction due to Re-measurement	-31,034	-458,540
Actuarial (Gains) /Losses	-	-
Balance at end of Year	6,780,550	5,912,204
Transfer to Current Liabilities	-	-
Total Post-retirement Health Care Benefits Liability	**6,780,550**	**5,912,204**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	4,074	3,261
Continuation Members (Retirees, widowers and orphans)	1,658	1,729
Total Members	**5,732**	**4,990**

The liability in respect of past service has been estimated as follows:	2011 R	2010 R
In-service Members	6,781	5,912
Continuation Members	-	-
Total Liability	**6,781**	**5,912**

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2012 is estimated to be R453 740, whereas the cost for the issuing year is estimated to be R417 282 (2010: R442 910).

The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	8.87%	9.20%
Health Care Cost Inflation Rate	7.38%	7.26%
Net Effective Discount Rate	1.38%	1.81%
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	60	60
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	5,912,204	5,493,516
Current service costs	417,282	442,910
Interest cost	541,402	487,118
Contributions from plan participants	-	-
Past-service costs	-	-
Benefits paid	-59,304	-52,800
Actuarial losses / (gains)	-31,034	-458,540
Losses / (gains) on curtailments	0	0
Liabilities extinguished on settlements	-	-
Present Value of Fund Obligation at the end of the Year	**6,780,550**	**5,912,204**
Actuarial losses / (gains) unrecognised	-	-
Total Recognised Benefit Liability	**6,780,550**	**5,912,204**
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	6,780,550	5,912,204
Fair value of plan assets	-	-
	6,780,550	5,912,204
Present value of unfunded obligations	-	-
Deficit	6,780,550	5,912,204
Unrecognised Past-service Cost	-	-
Unrecognised Actuarial Gains / (Losses)	-	-
Restrictions on asset recognised	-	-
Fair value of reimbursement rights recognised	-	-
Total Benefit Liability	**6,780,550**	**5,912,204**

The amounts recognised in the Statement of Financial Performance are as follows:	**2011** **R**	**2010** **R**
Current service cost	417,282	442,910
Interest cost	541,402	487,118
Expected return on plan assets	-	-
Expected return on reimbursement rights	-	-
Actuarial losses / (gains)	-31,034	-458,540
Benefits paid	-59,304	-52,800
Vested past service costs	-	-
Losses / (Gains) arising from curtailments or settlements	-	-
Adjustments for restrictions on the defined benefit asset	-	-
Total Post-retirement Benefit included in Employee Related Costs (Note 27)	**868,346**	**418,688**

Refer to Note 42 "Multi-employer Retirement Benefit Information" to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

19 NON-CURRENT PROVISIONS

19.1 Provision for Rehabilitation of Land-fill Sites	7,674,606	7,172,265
Total Non-current Provisions	**7,674,606**	**7,172,265**

The movement in Non-current Provisions are reconciled as follows:

	Illegal Dumping **R**	**Alien Vegetation** **R**	**Long Service Awards** **R**	**Land-fill Sites** **R**
30 June 2011				
Balance at beginning of year	-	-	-	7,172,265
Contributions to provision	-	-	-	502,341
Reduction due to re-measurement				
	-	-	-	7,674,606
Transfer to current provisions	-	-	-	-
Balance at end of year	**-**	**-**	**-**	**7,674,606**
30 June 2010				
Balance at beginning of year	-	-	-	6,702,810
Contributions to provision	-	-	-	469,455
	-	-	-	7,172,265
Transfer to current provisions	-	-	-	-
Balance at end of year	**-**	**-**	**-**	**7,172,265**

19.2 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R9,9 million (2010: R2.39 million) to restore the site at the end of its useful life, estimated to be in 2033. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

The provision for rehabilitation of landfill site was based on yearly escelation costs and not on the time value of money, therefore is discounted against depreceation through profit and loss and not through the interest expense method.

20 ACCUMULATED SURPLUS

	2011 R	2010 R
The Accumulated Surplus consists of the following Internal Funds and Reserves:		
Capital Replacement Reserve (CRR)	7,237,772	7,345,772
Capitalisation Reserve	237,103	237,103
Prior year provision for doubtfull debt written back		12,451,897
Prior year adjustments - Property Plant and Equipment and Intangibles Assets	316,017,679	9,300,865
Prior year adjustments - Loans redeemed		59,873,223
Prior year adjustments - bad debt written off		-168,640
Prior year adjustments - Property Plant and Equipment		261,239,934
Appropriations		8,667,368
Accumulated Surplus / (Deficit) due to the results of Operations	-28,811,304	-35,028,657
Total Accumulated Surplus	**294,681,251**	**323,918,866**

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

The **Capitalisation Reserve** equals the carrying value of the items of property, plant and equipment from the former legislated funds. The Capitalisation Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

21 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2011 R000's	July 2010 R000's		
Residential	-	-	3,569,415	3,585,443
Commercial	-	-	-	-
Agricultural	-	-	-	-
State	-	-	-	-
Municipal	-	-	-	-
Exempted Properties	-	-	-	-
Total Assessment Rates	**-**	**-**	**3,569,415**	**3,585,443**
Attributable to:				
Continuing Operations			3,569,415	3,585,443
			3,569,415	**3,585,443**

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The last valuation came into effect on 1 July 2009. A general valuation has been performed during the financial year and will be applied with effect 1 July 2010.

A rebate of 40,00% (2010/2009: 40,00%) was allowed on residential properties for pensioners based on the annual income of the ratepayer whilst a discount of 20,00% (2010/2009: 20,00%) was granted on properties owned by the State.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

22 INTEREST EARNED

Property Rates:		
Penalties imposed and Collection Charges	558,582	143,315
	558,582	**143,315**

	2011 R	2010 R
External Investments:		
Bank Account	32,059	102,310
Investments	10,310	-
	42,369	**102,310**
Outstanding Debtors:		
Outstanding Billing Debtors	1,258,321	1,110,168
	1,258,321	**1,110,168**
Total Interest Earned	**1,859,271**	**1,355,793**

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Avaliable-for-Sale Financial Assets	42,369	102,310
Loans and Receivables	1,816,902	1,253,483
Held-to-Maturity Investments	-	-
	1,859,271	1,355,793
Interest Earned on Non-financial Assets	-	-
	1,859,271	**1,355,793**

Revenue recognised in respect of Financial Assets designated as at "fair value through profit or loss" is disclosed in Note 40.

23 SERVICE CHARGES

Sale of Electricity	12,321,974	11,212,838
Sale of Water	7,171,864	6,901,454
Refuse Removal	3,935,736	3,805,645
Sewerage and Sanitation Charges	4,834,684	4,621,389
Prepaid electricity and connection fees	2,029,831	2,937,221
Total Service Charges	**30,294,090**	**29,478,547**
Attributable to:		
Continuing Operations	30,294,090	29,478,547
Discontinued Operations	-	-
	30,294,090	**29,478,547**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

24 RENTAL OF FACILITIES AND EQUIPMENT

Other Rental Revenue	281,684	261,470
Rental Revenue from Buildings	5,580	5,580
Rental Revenue from Halls	46,019	28,811
Rental Revenue from Other Facilities	2,313	2,203
Total Rental of Facilities and Equipment	**335,595**	**298,064**
Attributable to:		
Continuing Operations	335,595	298,064
Discontinued Operations	-	-
	335,595	**298,064**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

25 GOVERNMENT GRANTS AND SUBSIDIES	2011 R	2010 R
Provincial Equitable Share	23,637,479	18,947,724
Provincial Health Subsidies	-	-
Other Subsidies	-	-
Operational Grants	23,637,479	18,947,724
Conditional Grants	2,789,100	17,588,058
National: FMG	1,200,000	1,004,781
Provincial: MIG	489,100	14,574,404
Provincial: MSIG	750,000	1,048,596
National: Land Affairs Grant	-	646,379
Provincial: LDP	350,000	313,898
Transferred from Deferred Revenue (offset depreciation on assets funded from Grants)	-	-
Total Government Grants and Subsidies	**26,426,579**	**36,535,782**
Attributable to:		
Continuing Operations	26,426,579	36,535,782
Discontinued Operations	-	-
	26,426,579	**36,535,782**

25.1 National: FMG Grant

Balance unspent at beginning of year	14,500	-
Current year receipts	1,200,000	1,019,281
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-1,214,500	-1,004,781
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**-**	**14,500**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

25.2 Provincal: MIG Funds

Balance unspent at beginning of year	3,862,012	-
Current year receipts	9,782,000	18,436,416
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-489,100	
Conditions met - transferred to Revenue: Capital Expenses	-11,488,642	-14,574,404
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**1,666,270**	**3,862,012**

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). No funds have been withheld.

25.3 Provincial: MSIG Funds

Balance unspent at beginning of year	-	-
Current year receipts	750,000	1,048,596
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-750,000	-1,048,596
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**-**	**-**

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. No funds have been withheld.

	2011	2010
25.4 DWA - RBIG	**R**	**R**
Balance unspent at beginning of year	2,729,152	36,688
Current year receipts	15,016,460	18,833,939
Interest allocated	-	
Conditions met - transferred to Revenue: Operating Expenses	-	
Conditions met - transferred to Revenue: Capital Expenses	-13,131,106	-16,141,475
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**4,614,506**	**2,729,152**

This grant was used to construct bulk water infrastructure. No funds have been withheld.

25.5 Provincial - LDP

Balance unspent at beginning of year	94,671	-
Current year receipts	350,000	741,050
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-358,623	-646,379
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**86,048**	**94,671**

Expenses were incurred to connect houses to the electricity network of the municipality. No funds have been transferred to the municipality.

25.6 National - INEP

Balance unspent at beginning of year	-	-
Current year receipts	3,317,000	313,898
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-313,898
Conditions met - transferred to Revenue: Capital Expenses	-1,835,759	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 17)	**1,481,241**	**-**

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. No funds have been withheld.

26 OTHER INCOME

Building Plan Fees	18,369	7,163
Other Income	3,391,124	89,687
Total Other Income	**3,409,494**	**96,850**
Attributable to:		
Continuing Operations	3,409,494	96,850
Discontinued Operations	-	-
	3,409,494	**96,850**

27 EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	16,995,757	14,898,093
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	2,941,997	2,548,781
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	1,074,475	1,059,727
Housing Benefits and Allowances	55,825	67,278
Overtime Payments	853,424	648,290
Performance Bonuses	1,280,139	1,148,083
Defined Benefit Plan Expense: Current Service Cost	539,844	506,193
Total Employee Related Costs	**23,741,462**	**20,876,445**
Attributable to:		
Continuing Operations	23,741,462	20,876,445
Discontinued Operations	-	-
	23,741,462	**20,876,445**

Included in Employee Related Costs is an amount of R539 844 (2010: R506 193) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans.

27.1 Remuneration of Section 57 employees	**2011**	**2010**
	R	**R**
Remuneration of the Municipal Manager		
Annual Remuneration	657,648	598,177
Performance Bonus	58,954	54,637
Car Allowance	98,250	84,042
Back Pay		4,496
Housing Allowance	36,000	
Company Contributions to UIF, Medical and Pension Funds	1,547	1,542
Total	**852,399**	**742,895**
Remuneration of the Director: Finance		
Annual Remuneration	496,924	449,348
Performance Bonus	41,268	38,246
Car Allowance	136,594	136,594
Back Pay		3,597
Company Contributions to UIF, Medical and Pension Funds	1,547	1,542
Total	**676,333**	**629,327**

The post was vacant as from 01 June 2011. An Acting Allowance was paid for the period 01 June 2011 to 30 June 2011.

Remuneration of the Director: Technical Services		
Annual Remuneration	561,518	513,942
Performance Bonus	35,372	43,710
Car Allowance	72,000	72,000
Back Pay	-	3,597
Company Contributions to UIF, Medical and Pension Funds	1,547	1,542
Total	**670,437**	**634,791**

The post was vacant for the period 01 August 2009 to 30 September 2009, for which period an Acting Allowance was paid for.

Remuneration of the Director: Community Services		
Annual Remuneration	468,618	424,775
Performance Bonus	32,597	35,245
Car Allowance	115,192	115,192
Back Pay	-	3,315
Company Contributions to UIF, Medical and Pension Funds	1,547	1,542
Total	**617,954**	**580,069**

The post was vacant until 7 January 2011. An Acting Allowance was paid for the period 1 July 2010 to 7 January 2011.

28 REMUNERATION OF COUNCILLORS

Councillors	1,681,786	1,656,472
Sundry Allowances (Cellular Phones, etc)	535,891	462,078
Total Councillors' Remuneration	**2,217,677**	**2,118,550**

29 DEPRECIATION AND AMORTISATION

Depreciation: PPE and Investment Property	34,606,952	33,822,874
Amortisation: Intangible Assets	5,759	1,669
	-	7,280
Total Depreciation and Amortisation	**34,612,711**	**33,831,823**
Attributable to:		
Continuing Operations	34,612,711	33,831,823
Discontinued Operations	-	-
	34,612,711	**33,831,823**

Depreciation has been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 35.1 on "Correction of Error" for details of the restatement.

30 IMPAIRMENT LOSSES	2011 R	2010 R
30.1 Impairment Losses on Financial Assets		
Impairment Losses Recognised:	2,418,233	42,835,414
Consumer Debtors	2,418,233	42,835,414
	2,418,233	**42,835,414**
30.2 Impairment of Revenue		
Impairment Losses Recognised:	-	71,744
Assessment Rates	-	11,812
Service Charges: Electricity	-	12,444
Service Charges: Refuse	-	10,799
Service Charges: Sewerage	-	9,228
Service Charges: Water	-	18,994
Other Service Charges	-	8,468
	-	**71,744**
Total Impairment Losses	**2,418,233**	**42,907,158**
Attributable to:		
Continuing Operations	2,418,233	42,907,158
Discontinued Operations	-	-
	2,418,233	**42,907,158**

31 FINANCE COSTS		
Bank Overdrafts	131,898	319,483
Total Interest Expense	131,898	319,483
Attributable to:		
Continuing Operations	131,898	319,483
Discontinued Operations	-	-
	131,898	**319,483**

32 BULK PURCHASES		
Electricity	10,810,525	8,270,349
Water	200,488	133,650
Total Bulk Purchases	**11,011,013**	**8,404,000**

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Escom whilst Water is purchased from Rand Water.

33 GRANTS AND SUBSIDIES PAID		
Community Projects	-	646,379
Other	2,313,997	16,941,679
Total Grants and Subsidies	**2,313,997**	**17,588,058**

Donations to Sportfields are in respect of providing basic service levels to indigent/residential households.

The **Executive Mayor** makes grants available on application after consultation with the Municipal Manager on the merits of such an application.

Pauper Burials is paid to enable farmers to prevent cruelty to animals. The grant is increased on an annual basis.

The **Women's Day** is paid annually in the municipality's aim to further local economic development of all communities.

Community Projects are in respect of conditional grants utilised for the upliftment of housing and basic service needs of communities within the municipality's area of jurisdiction.

Free Basic Services are in respect of providing basic service levels to indigent/residential households.

Problem Animal Control is paid to enable farmers to prevent cruelty to animals. The grant is increased on an annual basis.

The **Tourism Grant** is paid annually in the municipality's aim to carry the diversity of cultures to all communities.

The Executive Mayor makes grants available on application after consultation with the Municipal Manager on the merits of such an application.

34 GENERAL EXPENSES	2011 R	2010 R
Advertising	35,323	64,193
Audit Fees	1,636,883	634,821
Bank Charges	190,700	154,399
Chemicals and Poison	259,718	165,546
Entertainment	30,231	21,131
Fuel and Oil	938,400	665,249
IDP Review	2,798	5,000
Insurance	576,721	465,660
Lease Charges	430,038	293,714
Legal Costs	385,208	264,152
Other General Expenses	1,773,090	1,449,812
Postage and Telegrams	164,471	133,727
Printing and Stationery	226,698	183,144
Special programs	9,110,991	8,199,778
Subsistence and Travelling	929,470	441,158
Telephone Cost	752,210	787,463
Training Costs	34,077	38,090
Uniforms and Protective Clothing	51,136	60,888
Total General Expenses	**17,528,164**	**14,027,924**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

35 CORRECTION OF ERROR

Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June.

Nature

The municipality previously opted to take advantage of the transitional provisions on GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets as set out in Directive 4. Under Directive 4, the Municipality was not required to measure inventory, property, plant and equipment, investment propert or intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets, being 1 July 2008. Furthermore where the initial accounting for inventory, property, plant and equipment, investment propert or intangible assets was incomplete by the end of a reporting period in which the Standard became effective or the transfer occurred, whichever was later, the municipality reported for those items of inventory, property, plant and equipment, investment property or intangible assets for which the accounting was incomplete at provisional amounts in its financial statements.

At 30 June 2011, the Municipality is no longer able to apply the abovementioned transitional provisions, and thus in terms of Directive 4, the Municipality should retrospectively adjust the provisional amounts recognised to reflect information obtained about facts and circumstances that existed on the effective date of GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets.

Details of the appropriations are as follows:	2011 R	2010 R
Unappropriated Surplus Account:		
Corrections of PPE, Intangible Asset and Investment Property	294,752,615	-
Corrections to Depreciation	-33,512,681	-
Increase / (Decrease) in Unapprropriated Surplus Account	**261,239,934**	**-**
Government Grants Reserve:		
Interest reversed from Government Grant Reserve	-	-
Increase / (Decrease) in Government Grants Reserve		
Increase / (Decrease) in Accumulated Surplus Account	**261,239,934**	

35.1 Reclassification of Expenditure:

The prior year figures of Expenditure Classes have been restated to correctly classify the nature of Expenditure of the municipality.

The effect of the Correction of Error is as follows:

	2009/2010 Expenditure	Adjustment	Restated Amount
Depreciation and Amortisation	311,862	33,512,681	33,824,543
	311,862	**33,512,681**	**33,824,543**

35.2 Reclassification of Statement of Financial Position:

The prior year balances of items on the Statement of Financial Position have been restated to correctly classify the nature of the balances.

The effect of the Correction of Error is as follows:

	2009/2010 Fin Position	Adjustment Fin Position	Restated Amount
PPE, Intangible Asset and Investment Property	83,325,601	261,239,934	344,565,535
	83,325,601	**261,239,934**	**344,565,535**

36 CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	(28,811,304)	(35,028,657)
Adjustment for:		
Depreciation and Amortisation	34,612,711	311,862
Other non cash items		(17,447,190)
Contribution to Retirement Benefit Liabilities	868,346	(52,800)
Contribution to Provisions - Current	(2,384,098)	-
Contribution to Impairment Provision	-	42,835,414
Bad Debts Written-off	-	(105,053)
Investment Income	(1,300,689)	(102,310)
Finance Costs	131,898	319,483
Operating surplus before working capital changes	**3,619,205**	**-9,269,251**
(Increase)/Decrease in Inventories	6,160	-44,058
(Increase)/Decrease in Consumer Debtors	(3,864,156)	20,911,092
(Increase)/Decrease in Other Debtors	(1,424,539)	4,540,041
Increase/(Decrease) in Consumer Deposits	11,933	35,441
Increase/(Decrease) in Creditors	(2,070,618)	3,952,160
Increase/(Decrease) in Conditional Grants and Receipts	3,876,884	3,619,828
Increase/(Decrease) in VAT Receivable	768,291	(119,054)
Cash generated by / (utilised in) Operations	**923,159**	**23,626,199**

		2011	2010
37	**UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**	**R**	**R**
	Long-term Liabilities (See Note 17)	1,198,735	2,309,213
	Used to finance Property, Plant and Equipment - at cost	(1,198,735)	(2,309,213)
	Sub-total	-	-

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

38 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

38.1 Unauthorised Expenditure

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under review.

Reconciliation of Unauthorised Expenditure:		
Opening balance	570,400	570,400
Unauthorised Expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery (see Note 11)	(570,400)	-
Unauthorised Expenditure awaiting authorisation	**-**	**570,400**

Incident	Disciplinary Steps / Criminal Proceedings
None	*None*

38.2 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:		
Opening balance	-	-
Irregular Expenditure current year	-	-
Condoned or written off by Council	-	-
Transfer to receivables for recovery (see Note 11)	-	-
Irregular Expenditure awaiting condonement	**-**	**-**

Incident	Disciplinary Steps / Criminal Proceedings
None	*None*

39 COMMITMENTS FOR EXPENDITURE

39.1 Capital Commitments

Commitments in respect of Capital Expenditure:		
- Approved and Contracted for:-	**3,823,505**	**697,200**
Infrastructure	3,823,505	545,605
Community	-	151,595
Total Capital Commitments	**3,823,505**	**697,200**
This expenditure will be financed from:		
Government Grants	3,823,505	697,200
	3,823,505	**697,200**

39.2 Lease Commitments

There are no Finance Lease Liabilities and Non-cancellable Operating Lease Commitments.

40 FINANCIAL INSTRUMENTS

	2011	2010
	R	R

40.1 Classification

FINANCIAL ASSETS:

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial Assets	Classification		
Long-term Receivables			
Other Loans	Loans and receivables	-	3,235
Trade and other receivables from exchange transactions			
Electricity	Loans and receivables	3,665,763	3,332,300
Refuse	Loans and receivables	10,503,300	13,659,746
Sewerage	Loans and receivables	6,807,412	8,649,889
Water	Loans and receivables	14,161,815	20,108,546
Loan Instalments	Loans and receivables	1,908,520	2,614,443
Other Debtors	Loans and receivables	6,035,702	9,186,674
Trade and other receivables from non-exchange transactions			
Payments made in Advance	Loans and receivables	1,894	-
Government Subsidy Claims	Loans and receivables	1,278,088	140,319
Projects	Loans and receivables	27,738	(28,754)
Short-term Loans	Loans and receivables	-	9,800
Sundry Deposits	Loans and receivables	-	(511)
Sundry Debtors	Loans and receivables	339,161	101,489
Bank,Cash and Cash Equivalents			
Notice Deposits	Held to maturity	632,384	632,384
Bank Balances	Available for sale	1,099,131	2,337,174
Cash Floats and Advances	Available for sale	1,580	-
Total Financial Assets		**46,462,488**	**60,746,734**

SUMMARY OF FINANCIAL ASSETS

Held to maturity:			
Investments	Fixed Deposits	632,384	632,384
		632,384	632,384
Loans and Receivables			
Long-term Receivables	Car Loans	-	3,235
Consumer Debtors	Electricity	3,665,763	3,332,300
Consumer Debtors	Refuse	10,503,300	13,659,746
Consumer Debtors	Sewerage	6,807,412	8,649,889
Consumer Debtors	Water	14,161,815	20,108,546
Consumer Debtors	Loan Instalments	1,908,520	2,614,443
Consumer Debtors	Other Debtors	6,035,702	9,186,674
Other Debtors	Payments made in Advance	1,894	-
Other Debtors	Government Subsidy Claims	1,278,088	140,319
Other Debtors	Projects	27,738	(28,754)
Other Debtors	Short-term Loans	-	9,800
Other Debtors	Sundry Deposits	-	(511)
Other Debtors	Sundry Debtors	339,161	101,489
		44,732,909	57,783,176
Available for Sale:			
Bank Balances and Cash	Bank Balances	1,099,131	2,337,174
Bank Balances and Cash	Cash Floats and Advances	1,580	-
		1,100,711	2,337,174
Total Financial Assets		**46,466,004**	**60,752,734**

FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial Liabilities	Classification	2011 R	2010 R
Long-term Liabilities			
Government Loans	Financial liabilities at amortised cost	82,894	162,954
Other Loans	Financial liabilities at amortised cost	-	97,334
Consumer Deposits			
Electricity and Water	Financial liabilities at fair value throu	556,479	544,546
Creditors			
Trade Creditors	Financial liabilities at amortised cost	3,203,934	2,855,419
Sundry Deposits	Financial liabilities at amortised cost	64,807	64,807
Other Creditors	Financial liabilities at amortised cost	1,361,223	3,580,068
Bank Overdraft			
Bank Overdraft	Available for Sale:	693,583	400,124
Current Portion of Long-term Liabilities			
Government Loans	Financial liabilities at amortised cost	71,620	52,873
Other Loans	Financial liabilities at amortised cost	97,237	148,131
Total Financial Liabilities		**6,131,777**	**7,906,256**

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:			
Long-term Liabilities	Government Loans	82,894	162,954
Long-term Liabilities	Other Loans	-	97,334
Consumer Deposits	Electricity and Water	556,479	544,546
Creditors	Trade Creditors	3,203,934	2,855,419
Creditors	Sundry Deposits	64,807	64,807
Creditors	Other Creditors	1,361,223	3,580,068
Bank Overdraft	Bank Overdraft	693,583	400,124
Current Portion of Long-term Liabilities	Government Loans	71,620	52,873
Current Portion of Long-term Liabilities	Other Loans	97,237	148,131
		6,131,777	7,906,256
Total Financial Liabilities		**6,131,777**	**7,906,256**

40.2 Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Available-for-sale investments
The fair values of some investments are estimated, based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables
Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and, therefore, the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed-interest-rate instruments are fair-valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables
The fair value of trade and other payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Trade Receivabless were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities
The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

Long-term Liabilities
The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

In accordance with IAS 39.09 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair values on 31 March 2011, as a result of the short-term maturity of these assets and liabilities.

	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Held to maturity:	632,384	632,384	632,384	(304,885)
Listed Investments	-	-	-	(937,269)
Municipal Stock	-	-	-	-
Fixed Deposits	632,384	632,384	632,384	632,384
Short-term Portion of Investments	-	-	-	-
Loans and Receivables	44,732,909	44,732,909	57,783,176	57,783,176
Long-term Receivables	-	-	3,235	3,235
Consumer Debtors	43,082,512	43,082,512	57,551,598	57,551,598
Other Debtors	1,646,882	1,646,882	222,343	222,343
Current Portion of Long-term Receivables	3,516	3,516	6,000	6,000
Available for Sale	1,100,711	1,100,711	2,337,174	2,337,174
Bank Balances and Cash	1,100,711	1,100,711	2,337,174	2,337,174
Total Financial Assets	46,466,004	46,466,004	60,752,734	59,815,465

	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL LIABILITIES				
Designated as FVTPL:	6,131,777	6,131,777	7,906,256	7,906,256
Local Registered Stock Loans	-	-	-	-
Amortised Cost				
Unsecured Bank Facilities:	776,477	776,477	660,412	660,412
- Annuity Loans	-	-	-	-
- Government Loans	82,894	82,894	162,954	162,954
- Other Loans	-	-	97,334	97,334
- Bank Overdraft	693,583	693,583	400,124	400,124
Trade and Other Payables:	5,355,300	5,355,300	7,245,844	7,245,844
- Consumer Deposits	556,479	556,479	544,546	544,546
- Creditors	4,629,964	4,629,964	6,500,294	6,500,294
- Short-term Loans	-	-	-	-
- Current Portion of Long-term Liabilities	168,857	168,857	201,004	201,004
Total Financial Liabilities	6,131,777	6,131,777	7,906,256	7,906,256
Total Financial Instruments	40,334,227	40,334,227	52,846,478	51,909,209
Unrecognised Gain / (Loss)		-		**(937,269)**

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

40.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 16, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 19 and the Statement of Changes in Net Assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipaliyty. The rate of borrowing is well below market related rates.

The municipality's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The municipality has a target gearing ratio of 20-25% determined as the proportion of net debt to equity. Based on the committee's recommendations, the municipality expects to increase its gearing ratio closer to 25% through the issue of new debt.

	2011 R	2010 R
The gearing ratio at the year-end was as follows:		
Debt	945,334	861,416
Bank, Cash and Cash Equivalents	1,100,711	2,337,174
Net Debt	2,046,045	3,198,590
Equity	294,681,251	323,918,866
Net debt to equity ratio	**0.69%**	**0.99%**

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 17.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

40.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these financial statements.

40.5 Disclosure of significant risks

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The Municipality has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit risk is the risk of financial loss to the Municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 42.1 to the annual financial statements.

40.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

40.6.1 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The Entity is not exposed to interest rate risk on these financial instruments, as the rates applicable are fixed interest rates.

40.6.2 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

40.7. Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/ Cash and Cash Equivalents
The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited creditrating agency.The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it's investment policy. Consequently, the Entity does not consider there to be any significant exposure to credit risk.

Trade and other receivables
Loans are granted and managed in accordance with Municipal policies and regulations. The associated interest rates and repayments are clearly defined and, where appropriate, the Entity obtains certain suitable forms of security when granting loans. Allowances for impairment are made in certain instances.

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The Municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness., subsequently the Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:
- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	2011 R	2010 R
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Fixed Deposit Investments	-	-
Long-term Receivables	3,516	9,235
Consumer Debtors	18,685,393	14,821,237
Other Debtors	1,646,882	222,343
Bank, Cash and Cash Equivalents	1,733,095	1,937,050
Maximum Credit and Interest Risk Exposure	**22,068,885**	**16,989,865**

The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows:	2011 R	2010 R
Consumer debtors:		
Household	91%	93%
Industrial/Commercial	9%	7%
National and Provincial Government	0%	0%
Other consumer debtors	0%	0%
Other debtors	0%	0%
	100%	100%

40.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 41 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility of R1.8 million is available and is unsecured. Interest payable is linked to the prime interest rate.

40 FINANCIAL INSTRUMENTS (Continued)

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
		%	R	R	R	R		R
30 June 2011								
Non-interest Bearing								
- Consumer Deposits		0.00%	556,479	-	556,479	-	-	-
- Creditors		0.00%	5,935,809	-	5,935,809	-	-	-
Fixed Interest Rate Instruments								
- Sanlam		15.00%	97,237	-	97,237	-	-	-
- DBSA Water		5.00%	154,514	-	71,620	82,894	-	-
- DBSA Vehicles		15.88%	946,984	-	946,815	-	-	-
			7,691,022	**-**	**7,607,960**	**82,894**	**-**	**-**
30 June 2010								
Non-interest Bearing								
- Consumer Deposits		0.00%	544,546	-	544,546	-	-	-
- Creditors		0.00%	8,006,427	-	8,006,427	-	-	-
Fixed Interest Rate Instruments								
- Sanlam		15.00%	245,466	-	148,228	97,237	-	-
- DBSA Water		5.00%	215,826	-	61,313	71,620	82,894	-
- DBSA Vehicles		15.88%	1,847,921	-	901,106	946,815	-	-
			10,860,185	**-**	**9,661,619**	**1,115,672**	**82,894**	**-**

At the year-end it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount included above is nil.

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
		%	R	R	R	R		R
30 June 2011								
Non-interest Bearing		0.00%	6,492,287	-	6,492,287	-	-	-
Fixed Interest Rate Instruments		14.41%	1,198,735	-	1,115,672	82,894	-	-
			7,691,022	**-**	**7,607,960**	**82,894**	**-**	**-**
30 June 2010								
Non-interest Bearing		0.00%	8,550,973	-	8,550,973	-	-	-
Fixed Interest Rate Instruments		14.77%	2,309,213	-	1,110,647	1,115,672	82,894	-
			10,860,185	**-**	**9,661,619**	**1,115,672**	**82,894**	**-**

The municipality has access to financing facilities (bank overdraft facilities), the total unused amount which is R1.8 million, at the reporting date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increased service tariff charges and the increased use of unsecured bank loan facilities.

40.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

41 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R868 346 (2011: R418 688) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

Defined benefit plan accounting as required by IAS 19 / AC 116 have been exempted in terms of General Notice 522 of 2010 and had not been applied for the previous or current financial year.

41.1 DEFINED BENEFIT SCHEMES

Cape Joint Pension Fund:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the fund had a surplus of R0 (30 June 2009: R0) million, with a funding level of 100% (30 June 2009: 100%).

Future service contribution rate: The recommended total contribution rate of 32.06% of pensionable salaries, as recommended in the previous statutory actuarial valuation, exceeds the total current contribution of 27.0% of salaries in the DB Section. This shortfall translates to about R9.8 million a year based on DB Section active member salaries at the valuationdate.

A final interest rate of 7.0% p.a. was declared in the DC Section for the year ending 30 June 2010.

A pension increase of 2.0% on 1 January 2011 was awarded.

On 30 June 2010 the valuator stated that the Cape Joint Pension Fund is in a sound financial condition.

On 30 June 2010 the valuator stated that the Cape Joint Pension Fund, in the normal course of events, will be funded on sound actuarial principles, if the recommended contribution rate is adopted

South African Local Authorities Pension Fund (SALA):
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 1 July 2010.

The statutory valuation performed as at 1 July 2010 revealed that the fund had a dificit of R264.2million (2009: R307,6), with a funding level of 96% (2009: 96%). The contribution rate paid by the members (7,50% to 9,00%) and the municipalities (15,00% to 20,80%) is is sufficient to fund the benefits accruing from the fund in the future.

None of the above mentioned plans are State Plans.

42 RELATED PARTY TRANSACTIONS

42.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
AC Mpela	MM	*None*
DT Visagie	CFO	*None*
TP Mosompha	TSM	*None*
BD Rossouw	CSM	*None*

42.2 Services rendered to Related Parties

The municipality did not render any services during the year to anyone that can be considered as a related party.

During the year the municipality rendered no services to related parties that are related to the municipality.

42.3 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 8 to the Annual Financial Statements.

43.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 23 and 24 respectively, to the Annual Financial Statements.

43.5 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

	2011 R	2010 R
43 CONTINGENT LIABILITIES		
43.1 Guarantees:		
(I) A bank guarantee in the amount of R6 000 was issued in favour of Eskom.	**6,000**	**6,000**
(ii) The municipality issued a bank guarantee in the amount of R2 852 000 in favour of Eskom to cover deposits on the electricity accounts of the municipality.		
43.2 Court Proceedings:		
(i) Komanisie Development is claiming loss of income and stock on a housing project to the amount of R6,000,000.00		
(ii) Piet van Wyk is claiming damage to lusern crop due to overflowing of seweridge dam is still pending - claim R 1000,000.00		
(iii) TMT is claiming R500 000 in terms of a speeding fine project	**7,500,000**	**7,500,000**

44 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

45 COMPARISON WITH THE BUDGET

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

46 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the financial year 2011/2010.

47 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2011.

48 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 35).

APPENDIX A

Umsombvu Local Municipality

SCHEDULE OF EXTERNAL LOANS AS AT 30 June 2011

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2010	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2011
	R				R	R	R	R
OTHER LOANS								
DBSA : Vehicles	4,000,000	15.88%			1,847,921	-	900,936	946,984
DBSA : Water	574,533	15.88%	1508311	2013/12/31	215,826	-	61,313	154,514
Sanlam	696,573	15.25%	1016575		245,466	-	148,228	97,237
Total Other Loans	**5,271,106**				**2,309,213**	**-**	**1,110,478**	**1,198,735**
TOTAL EXTERNAL LOANS	**5,271,106**				**2,309,213**	**-**	**1,110,478**	**1,198,735**

OTHER LOANS:

Loan DBSA - Vehicles is repaid over a period of 5 years and at interest rates of 15,88% per half annum.

The DBSA - Water Loan is repaid over a period of 25 years and at an interest rate of 15,88% (2010: 15,88%) per annum.

The Sanlam Loan are repaid over a period of 6 years and at interest rates varying from 15,25% to 16,50% (2010: 15,25% to 16,50%) per annum.

APPENDIX B
Umsobomvu Local Municipality
ANALYSIS OF PROPERTY,PLANT AND EQUIPMENT AS AT 30 JUNE 2011

30-Jun-11

Category	Cost				Accumulated Depreciation And Amortisation.				Net Book Values
	Opening Balance	Additions	Disposal	Closing Balance	Opening Balance	Depreciation	Disposal	Closing Balance	
Land and Building	**162,180,767**	**22,572**	**-**	**162,203,339**	**(38,046,084)**	**(4,510,512)**	**-**	**(42,556,597)**	**119,646,742**
Water Infracstructure	**330,263,804**	**96,318**	**-**	**330,360,122**	**(126,050,281)**	**(28,618,876)**	**-**	**(154,669,157)**	**175,690,966**
Rehabilitation Landfill Site	**6,702,810**	**438,039**	**-**	**7,140,849**	**157,589**	**-**	**-**	**157,589**	**7,298,438**
Other Assets:	**10,309,749**	**218,636**	**-**	**10,528,385**	**(1,205,519)**	**(1,470,283)**	**-**	**(2,675,802)**	**7,852,583**
Motor Vehicles	3,002,223			3,002,223	(341,377)	(289,999)		(631,376)	2,370,847
Furniture and Fittings	3,269,659	123,152		3,392,811	(478,062)	(606,147)	-	(1,084,209)	2,308,602
Machinery and Equipment	3,408,960	19,377		3,428,337	(340,120)	(386,092)	-	(726,212)	2,702,125
Computer Equipment	628,907	76,106		705,013	(45,960)	(188,045)		(234,005)	471,008
							-		
Intangiles Asset	**8,930**	**3,598**		**12,528**	**(1,669)**	**(5,759)**	**-**	**(7,428)**	**5,100**
Computer Software	8,930	3,598		12,528	(1,669)	(5,759)		(7,428)	5,100
							-		
							-		
Total	**509,466,060**	**779,163**	**-**	**510,245,223**	**(165,145,964)**	**(34,605,430)**	**-**	**(199,751,394)**	**310,493,828**

30-Jun-10

Category	Cost					Accumulated Depreciation and Amortisation.				Net Book Values
	Opening Balance	Correction Of Error	Additions	Disposal	Closing Balance	Opening Balance	Correction of error	Depreciation	Closing Balance	
Land and Building	**10,938,452**	**151,242,315**	**-**	**-**	**162,180,767**	**-**	**(33,536,199)**	**(4,509,885)**	**(38,046,084)**	**124,134,683**
Water Infracstructure	**2,683,004**	**322,258,217**	**5,322,583**	**-**	**330,263,804**	**-**	**(97,482,366)**	**(28,567,915)**	**(126,050,281)**	**204,213,523**
Rehabilitation Landfill Site	**6,702,810**	**-**	**-**	**-**	**6,702,810**	**469,451**	**(311,862)**	**-**	**157,589**	**6,860,399**
Other Assets:	**55,590,835**	**(46,368,305)**	**1,087,219**	**-**	**10,309,749**	**-**	**(467,724)**	**(737,794)**	**(1,205,518)**	**9,104,230**
Motor Vehicles	3,630,934	(1,189,048)	560,337		3,002,223	-	(137,906)	(203,471)	(341,377)	2,660,846
Furniture and Fittings	51,430,422	(48,208,472)	47,709		3,269,659	-	(133,306)	(344,756)	(478,062)	2,791,597
Machinery and Equipment		2,993,218	415,741		3,408,959	-	(189,889)	(150,230)	(340,119)	3,068,840
Computer Equipment	529,479	35,997	63,431		628,907	-	(6,623)	(39,337)	(45,960)	582,947
Intangiles Assets	**-**	**-**	**8,930**	**-**	**8,930**	**-**	**-**	**(1,669)**	**7,261**	**7,261**
Computer Software			8,930		8,930			(1,669)	7,261	7,261
Total	**75,915,101**	**427,132,227**	**6,418,732**	**-**	**509,466,060**	**469,451**	**(131,798,151)**	**(33,817,263)**	**(165,137,033)**	**344,320,096**

APPENDIX C
UMSOBOMVU LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 June 2011

Description	Vote Number	Cost / Revaluation			Carrying Value
		Opening Balance	Additions	Closing Balance	
		R	R	R	R
Executive and Council	*1001011152001+002*	33,978,114	-	33,978,114	33,961,314
Finance and Administration	*10-01-02-12 02 001*	9,765,200	-	9,765,200	6,072,184
Planning and Development	*10-01-02-13 52 001*	103,786,812	-	103,786,812	66,077,581
Health	*10-01-02-14 52 001*	941,930	-	941,930	583,997
Public Safety	*10-01-02-16 52 001*	10,370,181	22,572	10,392,753	6,440,153
Sport and Recreation	*10-01-02-17 52 001*	89,042,256	-	89,042,256	55,206,199
Waste Management	*10-01-02-30 52 001*	17,213,529	-	17,213,529	10,901,902
Water	*60-01-02-45 52 001*	150,386,918	63,493	150,450,412	65,184,650
Electricity	*10-01-02-40 52 001 & 50-01-02-40 52 001 & 002*	28,152,487.09	32,824.80	28,185,312	18,531,699.07
Sewerage	*50-01-02-40 53 001*	49,067,143	-	49,067,143	32,616,189
Total		**492,704,571**	**118,890**	**492,823,461**	**295,575,868**

APPENDIX D

Umsobomvu Local Municipality

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 June 2011

2010 Actual Income	2010 Budgeted Income	2010 Actual Expenditure	2010 Budgeted Expenditure	2010 Surplus/ (Deficit)	Description	Vote Number	2011 Actual Income	2011 Budgeted Income	2011 Actual Expenditure	2011 Budgeted Expenditure	2011 Surplus/ (Deficit)
R	R	R	R	R			R	R	R	R	R
18,947,724	18,948,000	12,691,729	12,192,212	6,255,995	Executive and Council		23,637,479	23,637,478	14,510,042	13,844,471	9,127,437
18,947,724	*18,948,000*	*12,691,729*	*12,192,212*	*6,255,995*	*Council General Expenses*	*1020-00*	*23,637,479*	*23,637,478*	*14,510,042*	*13,844,471*	*9,127,437*
5,647,904	5,760,747	10,692,468	10,165,977	(5,044,564)	Finance and Administration		10,199,913	6,440,365	12,073,633	13,283,747	(1,873,720)
5,646,632	*5,759,695*	*8,643,809*	*7,875,166*	*(2,997,177)*	*Municipal Manager*	*1005-00*	*10,199,913*	*6,440,365*	*12,073,633*	*13,283,747*	*(1,873,720)*
1,272	*1,052*	*2,048,659*	*2,290,811*	*(2,047,387)*	*Corporate Services*	*1010-00*	-		-	-	-
-	-	-	-	-	Planning and Development		53,155	35,758	5,789,622	5,896,670	(5,736,467)
				-	*Integrated Planning & Economic Development*	*1035-00*	*53,155*	*35,758*	*5,789,622*	*5,896,670*	*(5,736,467)*
(227,149)	362,540	690,329	1,329,651	(917,478)	Community and Social Services		384,462	379,201	1,396,325	1,421,841	(1,011,863)
20,834	*15,587*	*355,909*	*392,405*		*Community & Social Services*	*1025-00*	*32,317*	*27,366*	*413,117*	*450,832*	*(380,800)*
(247,983)	*346,953*	*334,420*	*937,246*	*(582,403)*	*Library Services*		*352,145*	*351,835*	*983,208*	*971,009*	*(631,063)*
-	-	314,281	304,716	(314,281)	Housing		-	-	384,164	374,918	(384,164)
-	-	*314,281*	*304,716*	*(314,281)*	*Housing Association*		-	-	*384,164*	*374,918*	*(384,164)*
1,930,515	1,300,121	1,309,073	1,404,872	621,442	Public Safety		1,976,548	2,270,513	1,538,154	1,612,067	438,394
1,930,515	*1,300,121*	*1,309,073*	*1,404,872*	*621,442*	*Traffic*	*1005-03*	*1,976,548*	*2,270,513*	*1,538,154*	*1,612,067*	*438,394*
-	-	392,554	548,304	(392,554)	Sport and Recreation		-	-	576,170	648,431	(576,170)
-	-	*392,554*	*548,304*	*(392,554)*	*Tourism*	*1050-00*	-	-	*576,170*	*648,431*	*(576,170)*
8,781,592	9,234,401	9,408,479	7,549,543	(626,887)	Waste Management		9,184,994	9,199,845	5,340,359	7,654,167	3,844,635
4,821,447	*3,946,969*	*4,946,230*	*3,679,343*	*(124,783)*	*Waste water management*		*5,062,237*	*5,009,777*	*2,419,702*	*3,746,393*	*2,642,535*
3,960,145	*5,287,432*	*4,462,249*	*3,870,200*	*(502,104)*	*Waste management*		*4,122,757*	*4,190,068*	*2,920,657*	*3,907,774*	*1,202,100*
25,368	26,819	4,925,997	5,232,138	(4,900,629)	Roads and Transport		-	-	-	-	-
25,368	*26,819*	*4,925,997*	*5,232,138*		*Roadworks*	*6000-05*	-		-	-	-
7,344,062	7,788,824	8,600,934	7,317,710	(1,256,872)	Water		8,154,875	8,380,818	6,734,432	8,041,668	1,420,443
7,344,062	*7,788,824*	*8,600,934*	*7,317,710*	*(1,256,872)*	*Water Services*	*1030-06*	*8,154,875*	*8,380,818*	*6,734,432*	*8,041,668*	*1,420,443*
12,997,183	13,449,686	41,449,964	10,826,015	(28,452,781)	Electricity		14,287,853	15,857,347	15,134,236	13,421,064	(846,383)
12,997,183	*13,449,686*	*41,449,964*	*10,826,015*	*(28,452,781)*	*Electrical Services*		*14,287,853*	*15,857,347*	*15,134,236*	*13,421,064*	*(846,383)*
55,448,471	**56,871,138**	**90,475,808**	**56,871,138**	**(35,028,609)**	Sub-Total		**67,879,279**	**66,201,325**	**63,477,137**	**66,199,044**	**4,402,142**
-	-	-	-	-	Less: Inter-departemental Charges		-	-	-	-	-
55,448,471	**56,871,138**	**90,475,808**	**56,871,138**	**(35,028,609)**	**Total**		**67,879,279**	**66,201,325**	**63,477,137**	**66,199,044**	**4,402,142**

APPENDIX E

Umsobomvu Local Municipality

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 June 2011

Description	2010/2011 Actual	2010/2011 Budget	2010/2011 Variance	2010/2011 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	%	
REVENUE					
Property Rates	3,569,415	3,631,260	(61,845)	(1.7)	
Property Rates - Penalties imposed and collection charges	558,582	654,504	(95,922)	(17.2)	Revenue budgeted for under Interest Earned - Outstanding debtors
Service Charges	30,294,090	31,644,855	(1,350,765)	(4.5)	
Rental of Facilities and Equipment	335,595	37,962	297,633	88.7	Good performance by relevant departments
Interest Earned - External investments	42,369	34,000	8,369	19.8	More funds available for investment as a result of unspent grant moneys
Interest Earned - Outstanding debtors	1,258,321	1,494,800	(236,479)	(18.8)	Decrease due to improved debt collection
Fines	1,769,468	2,008,281	(238,813)	(13.5)	Under performance of the Traffic Department
Licences and Permits	209,060	268,450	(59,390)	(28.4)	Decrease due to 2009 moneys collected in 2010 on which the budget was based
Government Grants and Subsidies	26,426,579	49,356,478	(22,929,899)	(86.8)	Capital grant receipts now excluded in performance statement in terms of IAS 20
Other Income	3,409,494	-	3,409,494	100.0	VAT income recognised on grants
Total Revenue	**67,872,972**	**89,130,590**	**(21,257,618)**	**(23.8)**	
EXPENDITURE					
Employee Related Costs	23,741,462	24,413,237	(671,775)	(2.8)	
Remuneration of Councillors	2,217,677	2,457,040	(239,363)	(10.8)	
Depreciation	34,612,711	-	34,612,711	100.0	Budgeted for capital redemption - not aligned to GRAP-format
Impairment Losses	2,418,233	5,100,172	(2,681,939)	(110.9)	Decrease due to improved debt collection
Repairs and Maintenance	2,036,121	-	2,036,121	100.0	Budget amount inlcluded in General expenses
Interest Paid	131,898	1,572,328	(1,440,430)	(1,092.1)	Capital redemption on loans and minimum overdraft facility
Bulk Purchases	11,011,013	10,619,220	391,793	3.6	
Contracted Services	673,000	673,000	(0)	(0.0)	
Grants and Subsidies Paid	2,313,997	-	2,313,997	100.0	Budget amount inlcluded in General expenses
General Expenses	17,528,164	21,365,818	(3,837,654)	(21.9)	Difference less than 10% including grants and repairs and maintenance
Total Expenditure	**96,684,276**	**66,200,815**	**30,483,461**	**46.0**	
NET SURPLUS / (DEFICIT) FOR THE YEAR	**(28,811,304)**	**22,929,775**	**(51,741,079)**	**225.7**	

APPENDIX F
Umsobomvu Local Municipality
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 0F 2003

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies Delayed / Withheld					Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) See below	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	June	Sept	Dec	March	June		Yes / No	
FMG	Nat Treasury	-1,200,000				661,426	745,439	74,819		N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MIG PROJECTS	Provincial	-2,500,000	-3,000,000	-4,282,000				3,060,275	8,917,467	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MSIG	Provincial	-750,000				408,365	192,708	311,158		N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
INEP	National	-70,000	-210,000	-1,500,000	-1,537,000			165,224	1,670,534	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
LDP	Provincial	-350,000				97,520	132,499	30,153	87,032	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
RBIG	DWA		-2,478,846	-4,531,328	-8,006,286	7,061	2,478,846	4,349,565	6,295,635	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
EQUITABLE SHARE	Nat Treasury	-9,848,949	-7,879,160	-5,909,370		1,540,997	1,671,056	1,630,654	1,708,898	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Total Grants and Subsidies Received		**-14,718,949**	**-13,568,006**	**-16,222,698**	**-9,543,286**	**2,715,369**	**5,220,548**	**9,621,848**	**18,679,566**								

(*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?